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TO: D. Dangoor DATE: April 24, 1991

FROM: M. Mahan/A. Goldfarb

SUBJECT: COMPETITIVE RESPONSE...EXECUTIVE SUMMARY

David, the attached document provides you with details of RJR's activities and our proposed distribution expansion alternatives to ensure PM's competitiveness in the sub-generic segment. Briefly stated, we believe that Bristol expansion should be primarily targeted against pack outlets, while Cambridge, in conjunction with Bristol (where appropriate), should provide us with the basis for our carton outlet response.

Additionally, a reduction in Alpine's list price should be implemented at the national level **immediately** in order to place further pressure on RJR. Below are a number of critical issues that need to be highlighted in relation to our overall decisions.

ISSUES

° Bristol merchandising in c-store/grocery outlets.

- most efficient approach is to utilize existing BV's.
- opportunity costs to Cambridge versus Bristol gains may not warrant this strategy --- Cambridge SOM in convenience stores: 2.65; grocery stores: 2.94.
- alternate approach would be to pay an extreme premium for a separate/ second footprint.

° PM merchandising capabilities in mainstream carton outlets.

- Unfortunately, PM still lacks the merchandising row depth, in traditional carton outlets, to sustain both Cambridge and Bristol franchises.

	Total PM P/V Rows in Self-Service Outlets
Chain Supermarkets	17
Independent Supermarkets	25
Mass Merchandisers	15
Total Universe	16

- In order to play out the competitive strategy in these environments, we need to take the handcuffs off of Cambridge and let it compete versus the lowest price point in-store. Currently, Cambridge is performing at the 3.34 level, in Supermarkets, +0.52 vs. YAG.

- Unless RJR establishes a separate merchandising section for sub-generics our ability to buy rows or place free-standing footprints for Bristol will be a long term process. The primary short term alternative will be to cannibalize existing Cambridge rows. The need to place Bristol in full distribution (supermarkets/mass merchandisers) may not be practical in all situations.

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° Bucks as alternative response to sub-generics in c-stores.

- Bucks already has depth of distribution in c-store segment.

	W/E Dist	Dist of Any Packing
Bucks	73	81
Magna	68	85

- However, this strategy may play into RJR's hand as they may be seeking maximum disruption to Marlboro, and welcome a repositioning of Bucks given the long term implications.

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